RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Oct. 9, 1996 **LETTER 1210**

THE PICTURE: Market action continues bullish, with just a few "little discrepancies." Consider the following:

(1) The D-J Industrial Average and the much broader S&P 500 and the NYSE Composite are all at all-time highs.

(2) The D-J Transportation Average has lagged badly and is still more than 200 points below its May high of **2296.20.**

(3) The D-J Utility Average is below its high for the year and well below its record high (high was recorded on August 8, 1993 at **256.46**).

(4) The advance-decline ratio has not quite confirmed the new highs in the Dow (see page 2 chart).

(5) The stock market has, so far, been amazingly resistant to decline. On many days the market opens lower, but as the day progresses buying comes in, and by the close of the day stocks have made up their losses and the market closes higher. To put it another way there's no real selling pressure coming into this market -- at least not yet. So to repeat an old market truism, "If the market won't go down -- it will go up."

(6) Market strength has been led (or certainly been confirmed) by the strength in the **Primary Trend Index (PTI).** Turning to the page 2 chart, we see that the PTI is currently at an all-time high and far above its 89-day moving average. I'll say it once more -- this market will not be in trouble until the PTI reverses and lapses into a definite downtrend. That has not happened yet.

I want to remind subscribers that the PTI is NOT an indicator of market condition. In other words, the PTI is not concerned with whether the market is over-bought or over-sold. *The PTI deals strictly with what the market is doing* -- whether its *basic direction* is bullish or bearish. As this is written the PTI remains in its bullish mode -- trending higher and remaining well above its 89-day moving average.

Note that in late-July the PTI did decline to test its moving average; at that time the PTI had every opportunity to break down. It refused to do so. And by early-September the PTI had climbed to new record highs.

The Word: Every day huge amounts of money pour into Wall Street with a large portion of this money going into equity funds. The funds in turn are forced to spend this money -- or to put it another way, they are forced to pay increasingly more for expensive stocks. The game will continue **until the exhaustion point is reached.**

Note: When Jeff Vinik of Fidelity's Magellan Fund turned conservative and took a large position in bonds, Fidelity forced him out. **Lesson #1:** Today, if you're a fund manager, you buy stocks -- or else. Which is exactly what's happening.

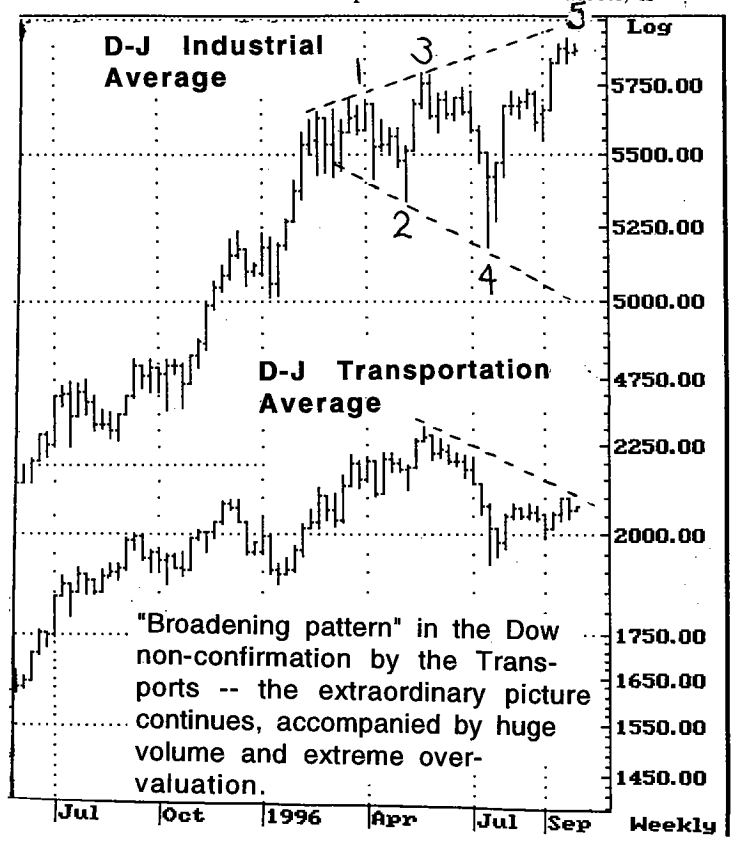
Lesson #2: This is an historic example of what the market is *actually doing* vs. what it "should be" doing. Based on all prior experience, this chronically over-valued, over-bought market "should have" topped out long ago. But the continuing enormous buying pressure serves to push stocks higher and higher.

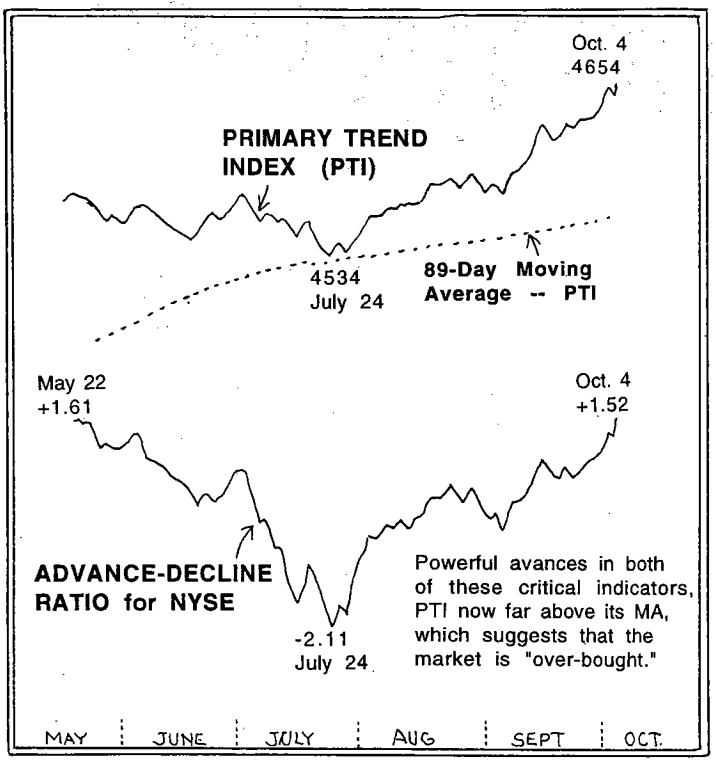
Sept. 27 DJIA 5872.92; PTI 4631; A-D Ratio +0.80
Oct. 4 DJIA 5992.86; PTI 4654; A-D Ratio +1.52
Dow Yield: 2.15%; Dow Price/Earnings: 18.4
Dow 144-day MA: 5716; Dow 34-day MA: 5867
Dow Times Book Value: 4.48; PTI 89-day MA: 4563
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 393.59; Gold-PTI: 365

When?: People keep asking me, "Russell, how or when will this bull market end?" I tell them that in my opinion it will not end on a news event or an election surprise or a signal from the Fed. No, it will end one fine day when it just topples over from exhaustion. Pile a collection of children's blocks, one on top of the other. At what point will the tower topple over? You just don't know. The higher the tower is built, the more spectacular it appears. The players become increasingly enamored with their handiwork. It's a magnificent structure. Another block is put in place. And the whole tower topples over. Why? Answer: it's obvious -- the tower just couldn't support that last block.

Comment: Alan Abelson in the Sept. 30 *Barron's,* thanked Merrill Lynch's Bob Farrell for listing a number of ways in which the current market is "extraordinary." I include these comments below. One conclusion is that the pressure on the BUY side of the market in terms of the sheer number of advisors and brokers is huge. Today we have a veritable army of brokers, advisors and fund managers all dedicated to the task of moving stocks into the hands of the public.

The dividend yield on the Standard & Poor's 500 of 2.1%, for example, is the lowest of this century. The value of stocks relative to GDP is the highest ever. The Tobin Q Ratio (financial assets/corporate balance-sheet assets) is





the highest ever. And so is the ratio of the S&P 500 to book value. Ditto, the S&P 500 price-to-sales ratio of 4.45.

The value of stocks relative to house prices is at peak levels. The number of hours a working stiff must labor to buy the S&P 500 has risen to a record 53.75.

Trading volume on the New York Stock Exchange is the most ever. The ratio of Nasdaq to Big Board volume is also at a peak. IPOs, mergers and stock buybacks are all at record highs. There is an unprecedented number of mutual funds, and the volume of money pouring into them is twice last year's peak annual rate. As never before, investors are snapping up the shares of aggressive growth funds.

The number of people registered to sell stocks and bonds is 527,000, the most in history and 30% more than in 1987. There are a record number – 32,000 – of candidates to become Chartered Financial Analysts. Seat prices on the NYSE have reached an all-time pinnacle of $1.45 million. There are more investment clubs active–22,000–than ever before. And there are 4,700 hedge funds, or comfortably more than one for every stock listed on the Big Board (3,419).

Just one high after another.

Closing Prices: In this business, it's very easy to place too much emphasis on the intra-day market action. For this reason, the Dow Theory considers only the CLOSING prices of the Averages. Dow Theorists want to know what the market looks like when the final bell rings -- after all the intra-day and in-and-out traders have closed out their positions, taken their profits or losses, and are on their way home.

The Market's Response: The KEY to the market is always *price action.* This is why I spend so much time discussing the *action of the averages.*

When significant news hits the market, the question I always ask is not how important or unimportant the news is -- but *what is the market's reaction to the news?*

I apply this same thinking to the technical indicators. For instance, if the market is "over-bought" as gauged by the stochastics or momentum or RSI, I watch the price action. In a powerful market an over-bought situation will be worked off with the Averages moving generally sideways. That, by the way, seems to be what is happening today. Conversely, in a weak market, an over-bought condition will be resolved via a market correction.

In an "over-sold" market the same is true. Many of my older subscribers may remember the market towards the end of 1974. The market was obviously extremely over-sold, it had been going down for months. But in December, in the face of dire forecasts from many of Wall Street's best-known and most-respected analysts, the market refused to decline further. The Dow sank to a final low in December, but the Transports stubbornly refused to confirm. Market action was screaming that the bottom was at hand. So in late-1974 the market's *reaction* to all the intense fear and bearish pronouncements was, "Enough, there's just nothing left on the downside." Thus began probably the greatest bull market in history.

So the conclusion is this -- it's not the news or the prevailing sentiment or even the technical studies that are critical. No, what is critical is *how the market reacts to those items and events.*

"Most Bullish Action?" Analysts are fond of saying that "the most bullish thing the market can do is to make new highs." Wrong, the most bullish thing the market can do is to make new highs with most of the critical indicators "in gear."

For instance, the Dow (which is what almost everyone watches) made a new high on September 3, 1929, as did the Transports. The breadth, however, was lagging badly. We now know that although the two D-J Averages struck record highs, that was NOT the most bullish thing the market could do. We know because a few months later the stock market crashed.

Again in January of 1973 the Dow hit a record high of 1051.70. In the face of widespread bullishness, the Transports refused to confirm. In retrospect, the new Dow high was hardly the most bullish thing the market could do. The '73 Dow high was followed by one of the worst bear markets of the century.

So we see that it is almost impossible to apply mechanical formulas to the market. Each market is different, and unfortunately, there is no certainty regarding what the market will do. Analyzing the market always entails probabilities rather than certainties. The day that some genius develops a fool-proof system for forecasting market movements, on that day the market will be doomed. It will be doomed because this genius, in due time, will accumulate most of the money in the world.

Of course what would really happen is that the market would soon discount the "fool-proof system," rendering it near-worthless.

INVESTMENT POSITION: The pressure continues to be powerful on the upside, and the PTI continues to hit new highs. For this reason, I've put a little bull inside the question mark. But why keep the question mark? Because of those lagging Transports plus the still-lagging advance-decline ratio.

And then there's that matter of over-valuation. In the past any time the price times dividends in the S&P was above 35 the market was on dangerous ground. In August 1987 the ratio got as high as 38, and the market crashed. Now consider this -- on September 20 of this year the price-to-dividend for the S&P hit a record high never seen before -- 46.5 to 1.

The current market valuation of many stocks staggers the imagination. They're selling at prices that are not only discounting the future, they're discounting the "beyond." For instance, the Planet Hollywood restaurant chain has a current stock market value

of $2.9 billion and is selling at 62 times estimated 1996 earnings. At the current market price, each of their 40 restaurants is worth $72 million. With competition from many new or forthcoming "concept" restaurant chains (Easy Riders, Rainforest, Hard Rock, on and on) Planet Hollywood would seem to be as much of a Wall Street fantasy as anything else.

THE FED: When there is little or no accountability, government departments and agencies tend to go wild. The Federal Reserve isn't even a government agency (it's an independent entity), but evidently the same concept of accountability applies. Salaries are higher at the Fed than in government, Fed staffers can qualify for juicy benefits (personal cars, subsidized meals, home security systems), and the question is why the Fed needs multi-thousands of employees and dozens of large, deluxe buildings. Finally, however, some of the Fed's "workings" are coming out in the open. Says Bert Ely, a banking industry consultant and Fed gadfly, "Virtually everything it (the Fed) does is under attack on all fronts."

Of course, I've attacked the very concept of the Fed itself. The creation of a central bank flies in the face of the Constitution (Jefferson repeatedly warned against a central bank). I probably get more letters regarding the Federal Reserve than almost any other subject. Obviously, it all boils down to the Fed's creation of "legal tender" money and what the Fed is and who controls the Fed.

The Founding Fathers abhorred paper money, and the US Constitution is specific when it states, "No state . . . shall coin money . . . or make anything but gold and silver coin a tender in payment of debts (article 1, section 10)." Yet, if you examine a dollar bill you will note that imprinted on each bill is the following: "This note is legal tender for all debts, public and private."

How did this happen? Who or what circumvented the Constitution with the "legal tender" edict? How can the US government print sheets of paper, cut those sheets into sections, and announce that these rectangular sections are legal tender for all debts?

How can the government make a law that says that paper is legal tender for all debts while at the same time gold and silver, which are specifically mentioned in the Constitution, have all but disappeared as US money? Ah, sweet mystery of life -- it happened. It happened when the Federal Reserve was created in 1913. It happened when the Supreme Court OK'd the legality of the Fed. It happened when a know-nothing Congress OK'd the legality of the Federal Reserve Act. So the question -- is the Fed legal, going, as it does, against the Constitution?

I asked a leading Constitutional lawyer this question and here was his answer: "Listen, Russell, the Constitution is whatever the Supreme Court says it is." End of mystery.

Sadly, the whole money situation is totally beyond the understanding of almost all Americans. That's how the American people were hoodwinked about their money. That's how the dollar was allowed to collapse in purchasing power. That's how American's lost their money and their savings. It's a tale told not by idiots, but by bankers and politicians. It is, to my mind, one of the greatest tragedies in American history.

Some claim that the Fed was created by the conspiracy of a few politicians and bankers. Some claim that the Federal Reserve act was slipped through a Congress that had no idea what it was doing. Personally, and I've studied the whole Fed situation carefully, I believe that the passage of the Federal Reserve Act was due to supreme ignorance on the part of the Congress. The Act was created in secret by coteries of men who met on an island off the coast of Georgia. The Act was never debated in Congress. It was (and still is) beyond the understanding of the American people.

Was it part of a conspiracy? I'm not convinced. But I do know this. The Fed's been an engine of inflation, and the very concept of a central bank which can create paper (fiat) money goes against the expressed wishes of the Founding Fathers.

An interesting development -- last week the Treasury announced that they will be issuing (quarterly) *indexed* T-bonds, mostly in maturities of 10 years. Why indexed? **The Russell explanation:** The public and particularly foreigners have become wary of bonds. Over the years T-bonds have always paid off -- right, but they've paid off in depreciated dollars. The trick is to be able to *continue* selling bonds to both the public and to foreigners. The indexed bonds (indexed to the CPI) which will rise in price with inflation -- will ostensibly protect buyers against a loss of purchasing power. Problems: (1) The indexed bonds will have a lower coupon. (2) Both the interest and the appreciation due to inflation will be taxed annually. The bonds, like all T-bonds, will not be subject to state taxes. **Question:** why do they call 'em bonds when 10-year maturities are actually notes. Answer: because most of the public doesn't understand what a note is, which, of course, tells us who these "bonds" are aimed at.

NOTES & QUOTES: Apologies: (1) The last Letter was subject to the biggest mailing screw-up I've gone through in 38 years of publishing this Letter. We think the problem was the mailing house, but it could have been the Post Office. I'm very sorry for the inconvenience and aggravation. Oh yes, in answer to many worried inquiries, the problem was not me, I'm healthy, I'm in good shape, I'm writing away as usual.

(2) Almost any subject I mention seems to bring in a battery of letters, some pro, some against, others simply amplifying my thoughts. The problem is that I can't answer all of this correspondence. Reading all that I have to read, and writing Dow Theory Letters takes up a lot of time and energy. It's tiring. So if you send a letter please rest assured that I will read it, but please don't hate me if you don't receive an answer. I've simply got to preserve my energy.

* *

Bonds: Why the strength in bonds? One possibility is put forth by Richard Hokenson, chief economist for Donaldson, Lufkin & Jenrette. Hokenson said a few days ago that the Fed's next move will be down. Hokenson cites evidence that may not have been correctly evaluated such as broad weakness in durable goods orders. To Hokenson, the economy is "surprisingly weak," and long-term interest rates are on the verge of falling. **Russell comment:** Forget "on the verge," they are falling.

* *

According to the latest *CNN/USA Today* poll, Dole is now only 10 points behind Clinton. Surprisingly, the race is growing closer. Why? It may be that an increasing number of Americans can't stomach the obfuscation and endless "forgetting" coming out of the White House. Even the liberal, dyed-in-the-wool Democratic *NY Times* seems to be getting a belly full of the Clintons. In their Sept. 26 editorial, the *Times* writes, "In the Public Broadcasting Service interview with Jim Lehrer, Mr. Clinton said he had given no thought to pardoning any Whitewater defendants, then laid out in some detail how the system for considering pardon petitions works. That had the disconcerting effect of hinting that loyalists might be rewarded for not testifying. Both comments create the impression that the White House wants to use partisan thrusts to disrupt the legal process, not Mr. Starr and others who remain legitimately curious about the full story of Whitewater."

Poll: Dole within 10 points of Clinton

By Richard Benedetto
USA TODAY

The presidential race, long a lopsided affair tipped heavily toward President Clinton, is

of their attacks on Clinton as a "closet liberal" poised to unleash a flock of big-government programs in a second term.

"The campaign is gaining traction," Dole campaign man-

Up to now, Ladd says, Clinton has been benefiting from his incumbency, a reasonably good economy and Dole's slow start in getting untracked.

Many voters who are still un-

On the same page, columnist Maureen Dowd writes, "Bill Clinton presents a target unprecedented in American politics: a perpetual-motion machine, moving left, right, and center, signing bills to please one constituency and promising to fix the bills he just signed to please another constituency."

Russell comment: What Clinton is -- is finally becoming so obvious, so blatant, so unacceptable, that maybe an increasing number of people are saying, "Dole can't deliver a speech, Dole is too old, Dole is inarticulate -- but damn it, at least Dole is a decent

man, and anything, anything is better than what we now have in the White House." It ain't over 'til it's over. And maybe Lincoln was right, "You can't fool all of the people all of the time."

In the meantime, economist Larry Kudlow (*WSJ*, Sept. 29) writes, "The Dole-Kemp ticket has unleashed a powerful weapon with its plan to reduce all personal income tax rates 15% and the capital gains tax by half. Beyond that, Bob Dole has strongly hinted at a modified flat tax with two brackets of 15% and 28%, with virtually unlimited individual retirement accounts and a significantly downsized IRS. This plan will restore economic incentives and revitalize the nation's long-run potential to grow." **Russell comment:** It's a great program, but damn it, why isn't Dole pushing it and explaining it and talking about it every day? I don't think most people really have any idea of what Dole stands for. If this was a Clinton program, he'd be talking it to the heavens.

* *

Bruce Willis turned up at the GOP national convention. He's a Republican, and I guess he's not completely happy. Says Bruce, "I'm only conservative in the fact that I am for smaller government and less spending. I truly believe there is nothing wrong with the American economy that having back 20% of your dough wouldn't fix overnight. I'm telling you, they don't need 50% of your money to run the government. That's just theft." **Russell comment:** I'm not usually impressed with the quotes of movie stars, but Bruce is definitely on to something.

* *

The Envy of the West: You may hate gambling (pardon me, gaming), but the state of Nevada loves it. The state has a $250 million surplus, the highest surplus ratio of any state except oil-rich Alaska. A fat 75% of Nevada's money comes from the collection of taxes on casinos. Nevada, as you probably know, boasts no state income tax.

* *

I keep commenting on China, because I believe they are on the way to being an economic colossus. This clip from the *International Herald Tribune* is worth noting:

China's Economy Is Strongest In Years, Top Official Says

Compiled by Our Staff From Dispatches

BEIJING — China's top economic policymaker has called the overall economic situation in China the best since 1993, with steady growth over the past eight months.

All the macroeconomic indicators basically met state targets set at the start of the year, Deputy Prime Minister Zhu Rongji was quoted Monday as saying at a recent three-day conference on cotton. Consumer demand has grown steadily since 1993, Mr. Zhu said, while foreign trade has increased.

* *

DeBeers, the huge diamond company, spent $15 million on diamond ads the first six months of 1996. The ads are created to appeal to women, and evidently the women ate 'em up. A fat 75% of all diamonds are bought by men to give to women (although women tend to hint as to what they want). US retail stores sell roughly $16 billion worth of diamonds every year. The price of big diamonds (over five carats) is very firm. In fact, big stones are hot. By the way, 140 carats of diamonds equal one ounce.

* *

The US national debt clock has rolled into San Diego, hauled in on a 25-foot trailer. It ticks another $9,500 in debt every second. The national debt is now over $5.4 trillion, and it would require $79,000 from every family in the nation to pay it off. Oh yes, in a recent study it was discovered that the great majority of US families could not come up with even $2,000 in cash.

What about the US national "Debt Ceiling"? Here's a tiny bit of history. In December 1980 the ceiling was lifted to $935 million. In May 1984 it was lifted to $1.520 billion. In October '86 it was lifted to $2.3 billion. In November '89 it was lifted to $3.122 billion. In April '93 it was lifted to $4.3 billion. On March of '96 (latest) it was raised to $5.5 billion. The national debt continues to rise at the rate of roughly $250 billion a year or $1 trillion every four years. And you wonder why the dollar is in a long-term decline?

Another of the reasons for the long-term weakness in the US dollar is the low US savings rate. The US savings rate is currently 4.3%. Japan is 17.8%, Germany is 12.7%, France is 12.4%, Britain is 12.0%. Even Canada is 7.8%.

* *

With deregulation, the competition among the phone companies has become intense, almost frantic. We get about two calls a day here (Sprint, AT&T, etc.), and the calls come in as late as 8PM . . . California is deregulating its electric utilities, so people here will be able to buy their electricity from the lowest bidder. I'm bracing for three or four calls a day from the electric utility companies.

Meanwhile, the race to control the whole communications world goes on. Howard Anderson, founder and managing director of Yankee Group, a Boston-based consulting firm, says he has seen the future and it's here. "Right now," he says, "there is a company . . . coming into my building and saying, 'Mr. Anderson, we can offer you local service at 15% less than Nynex. We can offer you cable service at 20% less than Cablevision. We can offer you Internet access, all you can eat, for $15 a month, and would you like a pager?'"

* *

I had speculated in corn options earlier in the year (made some money too), but I turned bearish on corn a few months ago. However, a friend who was actually in the corn business insisted that corn was heading considerably higher and that he was buying. Last week the price of corn broke to a six-month low. All of which reminded me of something written by William Hamilton, (Hamilton was an editor of the *Wall Street Journal* and a great Dow Theorist). In his seminal book, "The Stock Market Barometer," Hamilton wrote, "The farmers say . . . 'What does Wall Street know about farming?' Wall Street knows more than all the farmers put together ever knew, what all the farmers have forgotten. It can, moreover, refresh its memory instantly at any moment. It employs the ablest of the farmers, and its experts are better even than those of our Department of Agriculture, whose publications Wall Street reads, even if the farmer neglects them."

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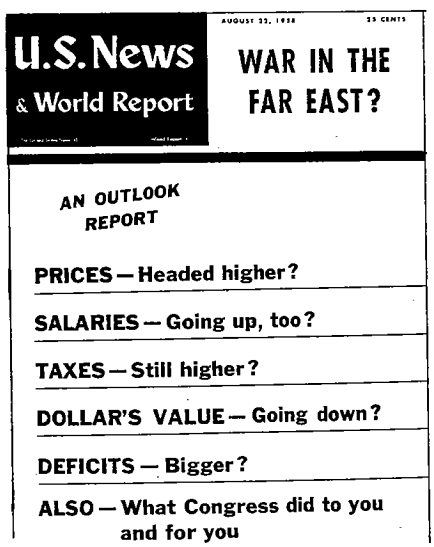

AUGUST 22, 1958
25 CENTS
U.S. News & World Report
WAR IN THE FAR EAST?
AN OUTLOOK REPORT
PRICES — Headed higher?
SALARIES — Going up, too?
TAXES — Still higher?
DOLLAR'S VALUE — Going down?
DEFICITS — Bigger?
ALSO — What Congress did to you and for you

A subscriber sent me a copy of *US News & World Report* dated August 22, 1958. Except for the price on the cover, 25 cents, the same cover could be used today. In August '58 T-bills were yielding 1.5% and the Dow was at 525.

* *

When I was a kid, people used to talk about "a 10 thousand dollar man." That was a fellow who "was sitting on top of the world." In those days, you could buy a good four course dinner for a dollar or a new Ford for less than a thousand dollars. *Forbes* magazine has just come out with their annual list of "richest people." Forget the thousands of millionaires, now it's billionaires that count. There are 121 billionaires in the world today. Here's a list of America's

10 richest. What's interesting about the list? It's that all but one live west of the Mississippi.

The Wealthiest of America's Wealthy

Here are the 10 richest Americans as ranked by Forbes magazine. Dollar figures are estimated net worth.

1. William Henry Gates III; Bellevue, Wash.; $18.5 billion
2. Warren Edward Buffett; Omaha; $15 billion
3. Paul Gardner Allen; Mercer Island, Wash.; $7.5 billion
4. John Werner Kluge; Charlottesville, Va.; $7.2 billion
5. Lawrence Joseph Ellison; Atherton, Calif.; $6 billion
6. Philip Hampson Knight; Portland, Ore.; $5.3 billion
7. Jim C. Walton; Bentonville, Ark.; $4.8 billion
8. John T. Walton; Durango, Colo.; $4.8 billion
9. Alice L. Walton; Rogers, Ark.; $4.7 billion
10. Helen Walton; Bentonville, Ark.; $4.7 billion

—Associated Press

* *

Ted Turner sold out to Time Warner, and I guess the check must have cleared. The Turner-Fonda duo owns a huge ranch in Montana, and a giant spread near Truth or Consequences in New Mexico. Now Turner has bought the Vermejo Park Ranch from Pennzoil Co. This gives Turner roughly 1.5% of the state of New Mexico or land equal to the state of Rhode Island (1,796 square miles). Turner is raising Buffalo down in New Mexico (the meat is low cholesterol and tasty), and the Buffs will live happily on range that will not support cattle. Turner is no fool -- Buffalo meat has a big future.

* *

Speaking of big spenders, Bill Gates' home in Medina, Washington (35,000 square feet, two dining rooms, two kitchens, reception room that seats 100, huge library, giant pool) will cost roughly $40 million. It will have state-of-the-art electronics with an ability to electronically track everybody in the building (maybe it will be a business write-off).

* *

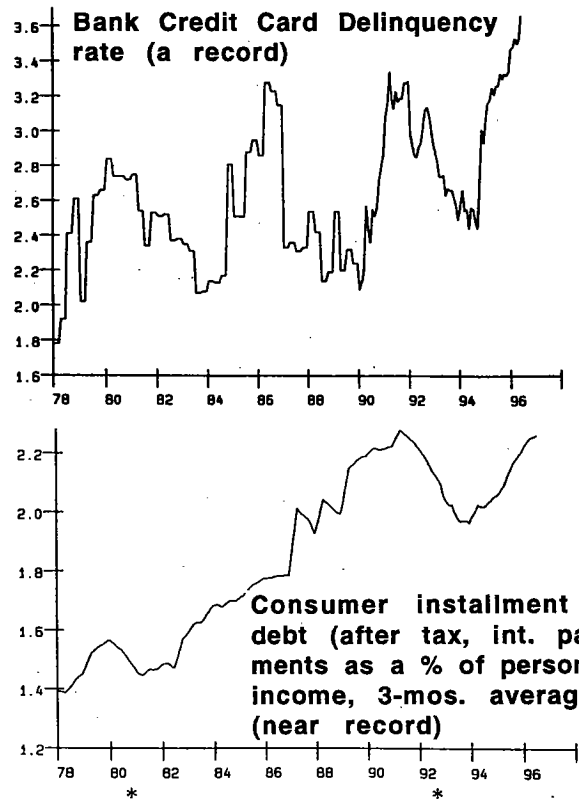
Personally, I've never liked ATMs, but now the Super-ATMs are coming. The Supers will have touch-screen monitors with thumb-print scanners. The new ATMs make change, cashing checks down to the penny. They also dispense everything from stamps, travelers checks, movie tickets, and local store coupons as well as up-to-the minute bank statements. A bank in Singapore is testing a terminal that in just a few seconds will print a customized checkbook complete with binding. The leading manufacturers of these new machines are NCR and Diebold. All of this, of course, is to cut down bank costs. And it's happening: for instance, BankBoston is replacing 1,500 ATMs with new models from Diebold. If all this works well, your corner bank may be hanging up a "for rent" sign within the next few years.

* *

South of San Diego (about 25 miles) lies the city of Tijuana. The place is turning into a Latino version of Chicago during the '30s. Gun fights are commonplace, and recently in Tijuana five Mexican prosecutors have been killed. On top of that, it turns out that Mexico's ruling party has been "misplacing" money. In the second of two audits, a commission discovered that $1.3 billion of the $6 billion received for Telefonos de Mexico cannot be accounted for in the national treasury. Money from the Texmex sale reportedly went into paying off part of the national debt, but there are no records to prove that, the audit found.

* *

Not only are personal bankruptcies surging in the US (one million families will declare bankruptcy in 1996), but bank credit card delinquencies are rocketing higher. This chart from Ed Hyman's *ISI* shows one side of the story. It's prosperity "on the cuff." As consumers struggle to keep up their standard of living, they're running up credit card debt to levels never seen before. Furthermore, the ratio of household debt as a percentage of household income has risen to 84% (it peaked below 78% just before the 1990-91 recession).



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Pork? There's a good argument regarding whether aircraft carriers aren't obsolete, even though the Navy will tell you otherwise. Each of these ships require a large compliment of other ships (destroyers and cruisers) to protect them. But the crux is that any freelance madman or almost any nation can launch a missile from a hidden pickup truck and potentially sink a multi-billion dollar carrier along with its crew of 5,000 to 6,000. Each carrier and compliment can cost up to $10 billion plus the $2 billion annually it costs to keep the service. Critics call carriers "90,000 tons of prime pork." Each carrier takes forever to build, and money goes to subcontractors in 40 states. But it's possible that the Navy will get another carrier and maybe another and another.

* *

It's generally conceded that the swing vote in the coming election, the vote that will decide the election, will be the women's vote. But in the cover story in the Sept. 28 London *Economist* they make the statement that "tomorrow belongs to women." The article, continues, "Aside from being more violent, more prone to disease, more likely to succumb to drugs, bad diet and suicide -- more socially undesirable, from almost every point of view, in fact -- men, it seems, are also slightly more stupid than women. At any rate, boys are doing less well in school. And since, with each passing year, more female word-processing consultants and nursery school teachers get new jobs and machine-tool operators lose theirs, it seems inevitable that women with their graduate certificates and mothering instincts will soon be doing ever more of the world's work while men lag further behind. A women's work is never done; a man is drunk from sun to sun."

A second article in the same *Economist* talks about "Tomorrow's Second Sex," and "a growing social problem -- uneducated, unmarried, unemployed men . . . American working-class men are increasingly unable (or unwilling) to support families."

* *

Fashion: It's becoming increasingly expensive for fashion houses to launch new styles. According to *Women's Wear*, "Megabrands such as Tommy Hilfiger, Ralph Lauren, Guess and Liz Claiborne have all raised the level of the playing field -- as each is spending in excess of $20 million to advertise or launch their sportswear businesses. In the first half of 1996, Nike spent $82 million, Reebok $52 million, Sara Lee $35 million and Levi's $31 million. Said one executive, 'I think from the media expenditure point of view, there has to be at least a $5 million minimum to get noticed.'"

* *

From our "What does it take to be noticed in California" file:

Nude bicyclist arrested

A 25-year-old man was arrested yesterday after a Highway Patrol officer noticed that he was bicycling on the side of Interstate 15 in the nude.

"The really funny thing is," one dispatcher said, "nobody even noticed it except the officer."

Authorities said the man was riding south on I-15 near state Route 76 when the officer saw him at 3 p.m. It was not known why the man left his clothes behind.

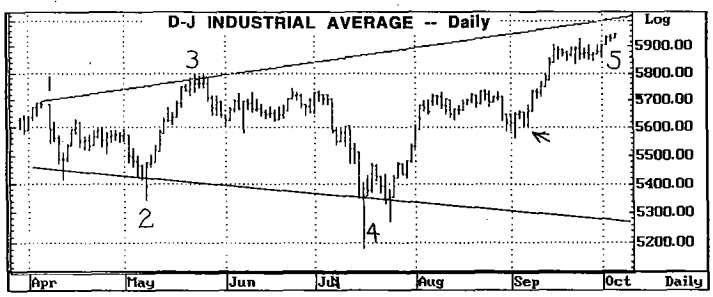
He was taken into custody on suspicion of indecent exposure.

DOW: I want to turn to the Dow again, with a further discussion of the current pattern. Here on the chart we saw the "broadening formation" with its five reversal swings, three up (numbered 1, 3, and 5) and two down (2 and 4). The top of the rising trendline at the #5 point comes at or very close to Dow 6000. The opposite side of the equation, the lower trendline in October comes in at around 5275.

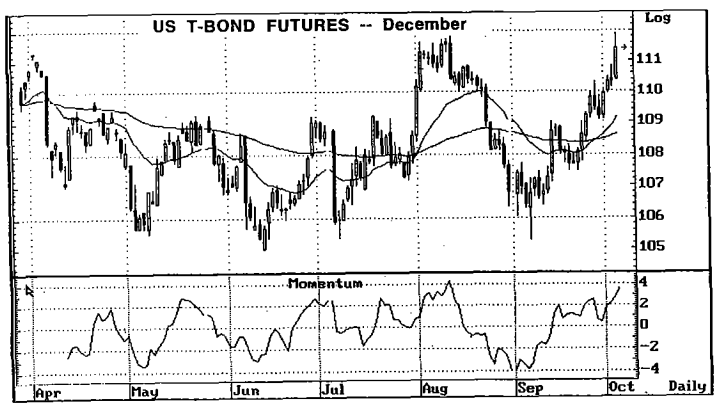
The picture at this juncture is very interesting. Already, Wall Street "experts" are talking about 6000 as if it were an accomplished fact. As this is written, 6000 is not yet accomplished. Personally, I hate to jump the gun, meaning that I'd much rather listen to the market talk than the experts.

The span from the lower October segment of the declining trendline to the upper October rising trendline is about 700 Dow points. The halfway level of that span (half of 700) comes in at about Dow 5600. This corresponds very closely to the September low (arrow).

Thus, I feel that the **5600** level on the Dow is an important one. If a correction comes in here or if the market tops out around the 6000 level, 5600 should serve as a critical area of support. Let me put it another way -- on any market weakness, what the Dow does at the 5600 level will be extremely important.



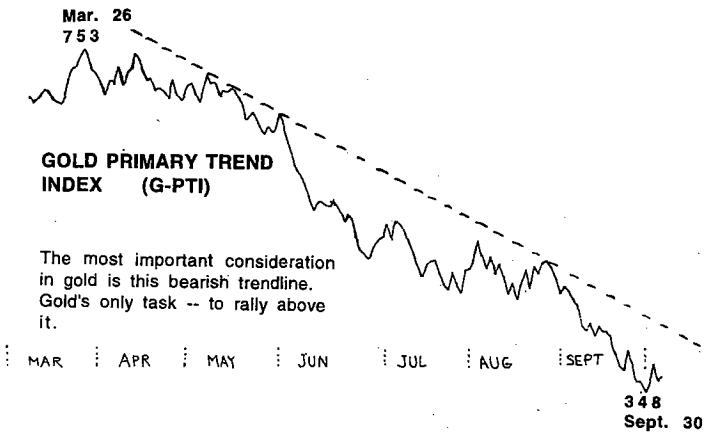
BONDS: Stock market action has followed bond market action all year. For this reason, it is worth taking a good look at the bonds.



The daily chart shows the bonds (December futures) approaching their highs of last August (high was 111 22/32nds).

The momentum index in the lower section of the chart suggests (as it did in early August) that the bonds are entering over-bought territory. Next stop? Can the bonds break out and enter new high territory at 112 or better? Maybe, but based on the momentum index, the bonds should be ready to consolidate or correct.

GOLD: Gold action continues "uninspiring." The threat by the IMF to sell $2 billion of gold hangs over the market like a fearsome sword. The gold stocks have been sinking, unsupported as they are by the weak price of the metal.



It doesn't take a brilliant analysis to see what's happening here. My Gold-Primary Trend Index (G-PTI) says it all. Since March 26 when the G-PTI turned down, it's been nothing but erosion, erosion and more erosion. The bright side is easy to see -- it would be the G-PTI turning up and bettering that four-month declining trendline. If that happens, you'll know it. In the meantime, there's not much sunshine in the world of the yellow metal.

Nevertheless, the two gold royalty stocks, the only two that I've recently recommended, have been doing well. I'm referring to Euro Nevada and Franco Nevada (both listed on the Toronto Exchange). These two companies do not mine gold, but they do collect royalties from a good many gold mining companies. If you want to get into the gold picture, these two stocks are the only two I'd recommend.

LATE NOTES: The latest job report (released last Friday) shows that the economy lost 40,000 workers. The bond market leaped on this "hot" information with bonds rising over a point in the morning. The stock market, reacting to the surging bond market, shot higher.

But what if the economy is heading into recession? Remember, the seven years of the decennial pattern have not been good ones. The year 1937 featured a crash, 1947 saw a bad market from January to May, 1957 was hit by a vicious summer collapse, 1967 was a good year until August, when the market sold off sharply, 1977 saw the Dow drop 20%, 1987 suffered an historic crash, all of which brings us to 1997. Will '97 be an exception? Could be, but remember, the Dow has not (on a closing basis) suffered even a 10% correction in six years.

My guess -- a surprise possibly even before the election, with the odds favoring trouble in '97.

For those with a bearish bent, let me say that in the market when you find yourself HOPING, something is wrong. Hoping is always a signal that you should have taken action. Hoping is a form of thinking, and as Freud put it, "Thinking is rehearsing." Rehearsing when you're dealing with the stock market is a ticket to losses. There's no substitute for ACTION, the opposite of thinking.

NEXT MAILING: Oct. 23, 1996